C4687-1
2/7/89

THE MAGAZINE FOR
GROWING COMPANIES

FEB. 1989
$3.00

Inc.®

THE MAKING OF A MANAGER

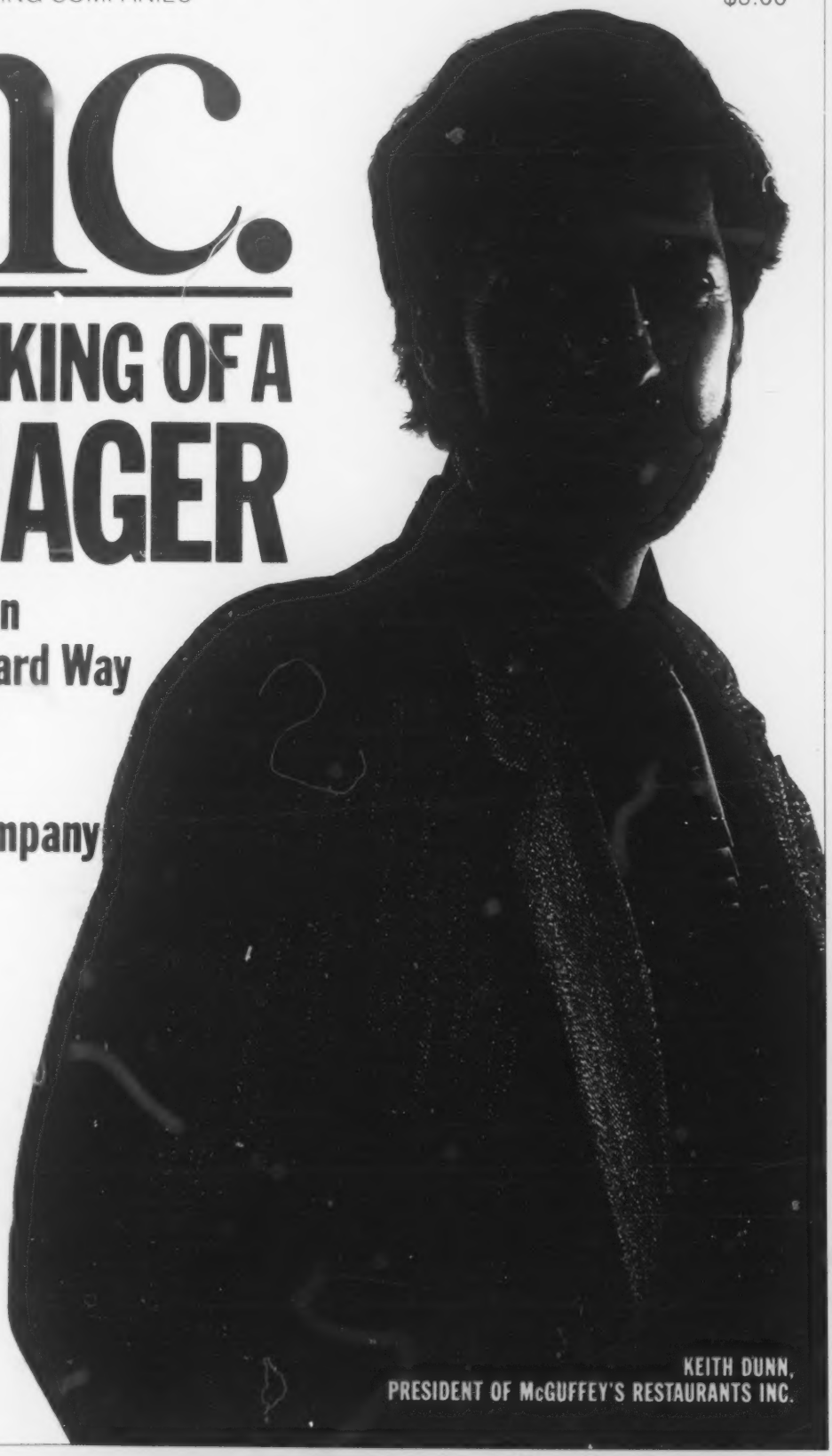
How Keith Dunn Learned the Hard Way What It Takes to Build an 'Excellent' Company

PAGE 62

PLUS

PAGE 55

The Anatomy of a Start-up: INC.'s Monthly Case Study of a New Business



KEITH DUNN,
PRESIDENT OF McGUFFEY'S RESTAURANTS INC.

02
0 884265 7
02768

CONTENTS

FEATURES

34 FACE-TO-FACE
How to Negotiate Practically Anything
Advice from Bob Woolf, the man who's closed deals for everyone from Larry Bird to Gene Shalit

44 **All the President's Men** *BY JAY FINEGAN*
John Henry's challenge was to assemble a team that could turn an intimidating government bureaucracy into a partner and ally

55 ANATOMY OF A START-UP
Cookie Monsters *BY PAUL B. BROWN*
R. W. Frookies Inc. is betting its all-natural product can grab shelf space now occupied by such classics as Oreo, Fig Newtons, and Mallomars

62 **The Odyssey of an Excellent Man** *BY JOSHUA HYATT*
All Keith Dunn wanted was to prove you didn't have to mistreat employees to be successful

71 **The Part-Time CEO** *BY BRUCE G. POSNER*
Meet a dentist who thought running a business on the side would be a lark

74 **Making It in the New Economy** *BY JOSHUA HYATT*
The world of global competition and technological change as seen through the eyes of an American worker

COLUMNS

28 **Required Reading:** Clutter Busters. *BY PAUL B. BROWN*
Many books promise an end to dull, forgettable advertising—a couple deliver

31 **Washington:** Déjà Vu All Over Again. *BY JAY FINEGAN*
The battle over mandated benefits is certain to be replayed in the new Congress. What's not so certain is the outcome

84 **Managing People:** The Best Little Handbook in Texas. *BY BRUCE G. POSNER*
How to make your company manual one of your most important management tools

91 **Finance:** How to Build a Profit Margin. *BY TOM RICHMAN*
As an alternative to belt-tightening, you might consider spending more, smarter

95 **Capital:** Supply-Side Financing. *BY ELLYN E. SPRAGINS*
Getting your capital—all of it—from your suppliers isn't easy, but it can be done

98 **Managing Technology:** Hidden Persuaders. *BY CARY LU*
Getting the the IBM PC—or PC clone—with the right 'bus' may be critical to what you can accomplish in the future

103 **Taxes:** The Last Acts of the 100th Congress. *BY JAY BRANDZEL*
Corrections to the 1986 tax bill, the extension of tax breaks, and the new taxpayer's bill of rights

DEPARTMENTS

11 **Letters:** In defense of social responsibility; why bankers and business owners fight; apologies to Trammell Crow

20 **Insider:** The ultimate just-in-time system; raising taxes; Hotline; New Businesses

82 **Hands On:** Voluntary layoffs; market research tips; training new hires; accessing information databases

115 **Investing in Growth Companies/Street Talk:** Positive 'sentiment'

INC. COVER STORY

62 Keith Dunn
The odyssey of an excellent man

34 Bob Woolf
How to negotiate practically anything

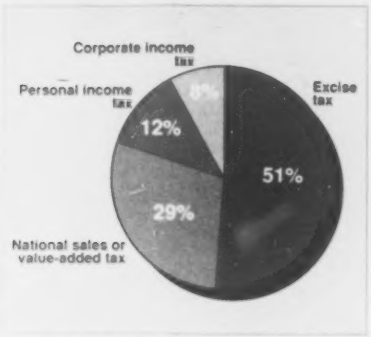
55 Richard S. Worth
Anatomy of a start-up: cookie monsters

COVER PHOTOGRAPH
by
Herb Snitzer

INSIDER

READ OUR LIPS

How should President Bush reduce the federal budget deficit? Arthur Andersen & Co. posed a version of that question to some 21,000 owner-managers of companies in the $1-million to $120-million range. Predictably, a majority (55%) opted for cuts in existing programs, but a sizable 44% favored some combination of spending cuts and tax increases. And that's from people who supported Bush over Dukakis by 84% to 9% (with 7% undecided at the time of the survey). What if taxes *have* to be raised? A surprising 29% said they'd find a national sales or value-added tax least unpalatable.



The least unpalatable tax increases
How to generate additional revenue?

GOING STRAIGHT

At first glance, Southern Kitchens Inc. looks like most other growing companies. A maker of sandwiches for vending machines and cafeterias, it has trouble with cash flow, is in the process of going public, and has had to fight to survive against two much larger competitors. So much for the similarities. The major difference lies in the work force. Almost half the 35 jobs at the Minneapolis company are held by newly released convicts.

The unusual venture traces its origins to a meeting in 1983 between a prayer group of area businessmen and Austin Timms, an ex-felon with a local street ministry. Timms told the group that the toughest problem former offenders face is lack of work: since no one will hire them, they quickly return to crime. Some of the businessmen began working with Timms to form a company that would hire ex-convicts just out of prison. The group eventually decided to specialize in high-quality sandwiches—a market in which they hoped a small company could compete while creating unskilled jobs.

In the past two years, about 30 ex-offenders have passed through Southern Kitchens. Most of them work for a few months at $4 to $5 per hour, establishing an employment history to show other employers. "We want this to be a bridge," explains cofounder Cy Laurent. "It is not intended to be a place to stay."

Company president Phillip Crowley, a food-service veteran, insists that his work force has been the least of his troubles. Convicts getting out of prison, he says, are at a point where they most want to change and are loyal to a company that gives them a chance. "We have fewer problems [with them] than with the general population." Of course, it helps that job candidates are screened by streetwise vice-president Timms, who makes sure they have a sincere desire to work.

Southern Kitchens' greatest challenge has been to operate profitably—something the founders consider crucial to their mission. Otherwise, they feel, the business community won't take the company seriously. "It was a struggle right from the start," says Laurent, who admits the group would have given up had this been an ordinary venture. The founders are glad they hung on, however: in fiscal 1988 sales climbed 250% to $1.5 million. And in fiscal 1989, Crowley says, the company is showing its first profit. Now, its founders hope the company's example may encourage other businesspeople to take hiring risks. "We feel these problems can be solved only if the private sector gets involved," says Crowley. —*M.E.M.*

Crowley (l) with vp Timms
A work force of former offenders

FIRE STARTER

Some people just have a knack for coming up with great products. Take Paul Hait, the inventor-entrepreneur who turned a backyard hobby of smoking meat into Pemmican, the best-selling brand of beef jerky in the United States. His current product is a revolutionary cookout grill that can be fired up as high as 1,200° F., uses 75% less fuel than a standard kettle-type barbecue, and collapses into a lightweight package. Hait got the idea for it during a camping trip in the Sierras.

It seems he was having a problem with the rain, which kept dousing his camp fire. So he tried building his fire under a pyramid of stones. The structure's shape, he found, not only kept out the rain but made cooking more efficient. Seeing an opportunity, Hait went on to develop a line of cookers around the concept of heat reflectivity. The most popular model can grill a meal for six people with 9 briquettes (as opposed to 40 for the average barbecue).

JOHN HARDING

Inventor Hait and Pyromid grills
Turning hobbies into hot products

The leftover ashes fall into a foil liner for easy disposal. As for flexibility, the grill, known as the Pyromid L.A.S.A.R. Cooking System, can chuff along as a smoker at 150° F. or work as a searing stove at eight times that temperature.

The hard part has been getting the product to market. After a number of false starts, Pyromid Inc., based in Redmond, Ore., is only now approaching the $1-million mark in sales. Nevertheless, Hait has big plans for the little grill. He thinks it could help solve Third World environmental problems caused by deforestation in the quest for cooking fuel. "This is a 'bridge' product," he says. "It would move people like the Chinese into the twenty-first century without breaking their bank accounts." —*Edward O. Welles*

INSIDER (continued)

HANDS ON

A Manager's Notebook

TRAINING

THE BUDDY SYSTEM

Most CEOs would say their companies don't train and orient new employees as well as they'd like—including, until last year, Sally Tassani. Her solution? The buddy system. Each new hire at Tassani Communications Inc., Tassani's Chicago advertising and public-relations firm, is paired with a veteran employee at a similar job level, usually from another department. The buddy answers questions, makes introductions, and assays the ins and outs of Tassani corporate culture.

"We were frustrated that we weren't providing adequate job training, especially when going through fast growth," says president and founder Tassani. "New people really need someone they can go to and say, 'This is what they said, but I don't understand.' When the buddy is a peer from another department, new employees aren't as inhibited about asking questions."

New employees usually avail themselves of their buddy for a couple of months. "It's a great way to get everybody in the company involved with training," Tassani adds. "And it doesn't take a lot of any one person's time or money." □

LESS TIME FOR BROWSING

How many consumers "really enjoy" browsing in these types of stores?

	1988	% decrease from 1983:
Clothing store	43%	–1%
Department store	43	–1
Bookstore	35	–1
Grocery store	30	–5
Gift shop	25	–4
Furniture store	24	–6
Hardware store	23	–6
Sporting goods store	23	–3
Audio/record/tape store	19	–2
Gourmet food shop	14	–3

Over the past five years, the proportion of consumers who say they like to browse has decreased for every one of 26 kinds of stores. In particular, women, college-educated and affluent consumers, and consumers on the East and West Coasts are generally much less likely to be interested in browsing now than they were in 1983.

Source: The Roper Organization's *The Public Pulse*, November 1988

INFORMATION

KEEPING UP, WITH NASA'S HELP

One result of the high-tech/information age is that competitively useful information of all kinds—about products, markets, companies, and technical developments—is available to the public. Many small-company managers, however, are finding the data hard to obtain.

Pasadena, Calif.–based Glass Instruments Inc., for instance, often needs to check on existing patents and current technical information, but none of its 16 employees are trained to use technical databases. Nor can the company afford to maintain a technical or publications library. So what does office manager Dorothy Harkness do? She calls NASA.

The Los Angeles office of the NASA Industrial Application Center (NIAC), a nonprofit program of the space agency, specializes in searching more than 400 databases of all kinds, particularly for small companies that don't use databases often enough to justify training their personnel.

The searches can be conducted while you're linked to NIAC by phone and computer, so you can direct the search and immediately download interesting information to your PC. On average, searches cost between $140 and $300 per topic, depending on the databases used. For more information, call NIAC at the University of Southern California, (213) 743-6132. □

MANAGING PEOPLE

EXPLAINING FINANCIALS

Sharing an income statement and balance sheet with the ranks can be a powerful tool for motivating performance, but not if employees don't understand them. So the financial statements at employee-owned Reflexite Corp., in New Britain, Conn., come complete with explanations for each line item.

The idea came from a discussion president and CEO Cecil Ursprung had with key managers. "One of my bright, capable managers said, 'I hope you publish something diffferent from what I got, because I don't know how to read the thing,' " Ursprung says. "I thought, we'd better do some educating when we hand this out."

The annotations, for such items as prepaid expenses ("This is the value of expenses paid in advance, such as insurance premiums"), appear in fine print in the right-hand margin, close to the appropriate number and with a line connecting the two. □

QUOTE OF THE MONTH

'I decided to quit Ford and work for a small company to get out of the rat race. I found out there was another rat race.'

—Harry Featherstone (who sounds happy when he says this), CEO of Will-Burt Co., in Orrville, Ohio

CHARTS: CYNTHIA DAVIS

HANDS ON

OPERATIONS

VOLUNTARY LAYOFFS

Unavoidable slow-season layoffs can wreck morale—and productivity—at even the best-managed companies. Is there a bloodless way to expand and contract your work force as the business cycle dictates? The folks at Nypro Inc. think so.

Before assigning enough pink slips to handle the (presumably temporary) lean times, CEO Gordon Lankton asks employees whether any of them will volunteer for time off. For the past 15 years, they have. Older workers, employees with young families, or those for whom Nypro provides a second income are the most frequent volunteers. "They go out and get refreshed and come back more enthused than ever—and they almost always *do* come back," Lankton says. "These days, people like flexibility. It helps them and it helps the company."

Lankton points out that the policy is more expensive than ordinary layoffs. Though payroll gets cut, related costs don't. Voluntary leave-takers at the Clinton, Mass.-based injection-molding company remain eligible for benefits and profit sharing. □

WHICH BENEFITS AFFECT

CAREER CHOICES?

Percent of execs who consider benefit when deciding to keep or accept a job:

Hospitalization	74%
Major medical	71
Vacation	67
Sick days	55
Holidays	54
Traditional retirement	45
Long-term disability	43
Short-term disability	35
Group life insurance	34
Retiree healthcare	30

High-quality benefits can be the difference between keeping or losing a top company executive.

Source: National Institute of Business Management Inc., 1988

MARKETING

FREE-TRIAL FEEDBACK

Looking for another source of cheap and on-target market research? Donald L. Beaver Jr., founder and chairman of New Pig Corp., has found one: disgruntled not-quite customers. He calls them not-quite because though they use his products, they decide not to pay for them.

Here's how Beaver's plan works. To sell prospects on the Altoona, Pa., company's "pigs"—devices that absorb leaks around manufacturing machinery—he offers 20-day, no-risk trials. If you don't like the pigs, you can ignore the bill. When a bill *is* ignored, Beaver calls to find out why. The result? Ideas for new or improved products. One customer, for instance, said he wasn't paying because his pig reacted with the nitric-acid leaks it was absorbing. Beaver explained that the product hadn't been designed to deal with hazardous fluids—and set about developing one that could. Today, he says, the resulting hazardous-materials pig is a $2-million-a-year product.

The key to the strategy, Beaver says, is the ignore-the-bill offer. Without it, dissatisfied customers would pay up the first time but never order again, and their immediate feedback would be lost. □

BENEFITS

MAKING RETIREMENT SAVINGS ADD UP

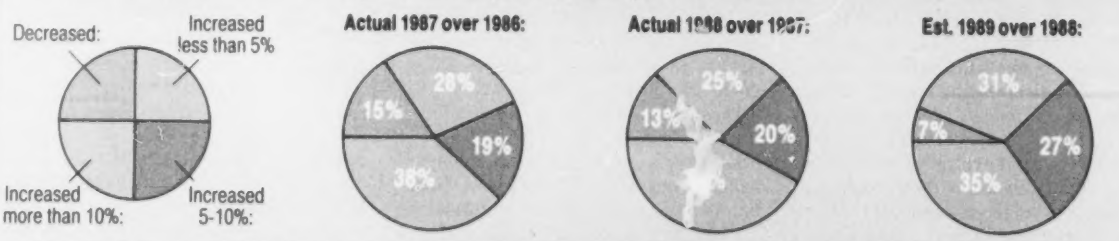
Impressing on employees the value of retirement benefits can seem like one of the all-time great managerial challenges. But not if you present the benefits as simply as you would a savings account, discovered Engineering Design & Sales (EDS) CEO and president Roy G. Gignac.

The Danville, Va., electronic design and manufacturing company now issues each eligible employee an ersatz savings passbook for recording profit-sharing vitals: the company's contributions and interest earned. "Most companies hand out certificates at the end of the year telling employees how much they've socked away," Gignac says. "It gets stuffed in a drawer and forgotten. I wanted my profit sharing to have a more immediate effect on my employees—to be a reason to stay with my company. And I wanted to make it easy for them to understand how much we're doing for them."

On the first Tuesday of every month, the EDS accounting department makes the appropriate entries, based on the previous month's profits. "Employees can see their hard work pay off on a monthly basis, which is much more rewarding than yearly. And they take a more active interest in the plan." □

SMALL BUSINESS SALES GROWTH

Proportion of businesses whose sales grew, in % change over previous year



JOHN SIZING

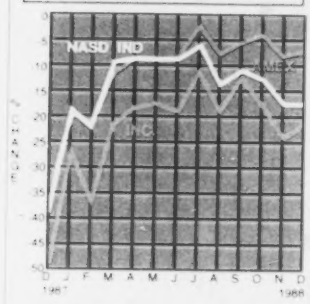
Small business owners remain optimistic for 1989: more than 60% predict at least a 5% increase in sales; 35% predict an increase greater than 10%.

Source: Arthur Andersen & Co. Small Business Survey, 1988

Reported by Teri Lammers and Martha E. Mangelsdorf

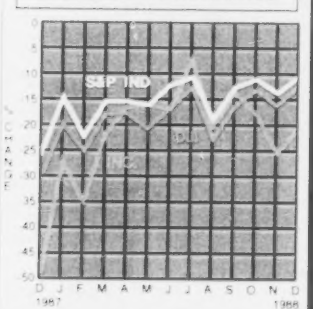
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



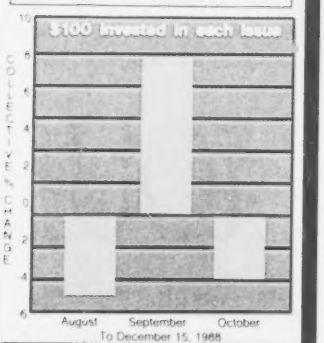
All averages start at 0 in October 1987

INC. vs. SPECULATIVE AVERAGES



All averages start at 0 in October 1987

IPOs IN THE AFTERMARKET



INITIAL PUBLIC OFFERINGS: NOVEMBER 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
AME[a]	ACM Managed Income Fund	Closed-end fund	180.00	10.00	10	Merrill Lynch
BEC[a]	Beckman Instruments	Mfrs. scientific chemical instruments	85.50	19.00[c]	18⅞	Goldman, Sachs
BTT[a]	Blackstone Target	Closed-end fund	830.00	10.00	10	Prudential-Bache
BRCCU	Bristol Research	Designs & mkts. computer prods.	4.00	4.00[d]	5¾	F. N. Wolf
CBPA	Community Bancorp	Savings & loan holding co.	2.96	6.50[e]	6½	Williams Securities
DVGLU	Dimensional Vision Group Ltd.	Develops & mkts. media materials	4.20	6.00[f]	7¼	D. H. Blair
GGNS	Genus	Mfrs. integrated circuit equip.	10.00	5.00	5	Alex. Brown
HWY[a]	Huntway Partners L.P.	Refines petroleum prods.	56.06	11.50	11½	Goldman, Sachs
LERYU	Leroy Pharmacies	Operates chain of drugstores	3.50	5.00[g]	5	Whale Securities
LOGC	Logic Devices	Designs & mfrs. integrated circuits	6.00	6.00	6	H. J. Meyers
LSF[a]	Lomas Mortgage Securities Fund	Closed-end fund	300.00	12.00	12	Merrill Lynch
MTBS	Metro Bancshares	Savings & loan holding co.	4.25	8.75[h]	8¾	Merrill Lynch
MHF[a]	Municipal High Income Fund	Closed-end fund	150.00	10.00	10	Shearson Lehman
OGT[a]	Oppenheimer Special	Closed-end fund	55.00	10.00	10	Paine Webber
PHY[a]	Prospect Street High Income Portfolio	Closed-end fund	120.00	10.00	10	Drexel Burnham
TGG[a]	Templeton Global Governments Income Trust	Closed-end fund	175.00	10.00	10	Dean Witter
PHE[b]	USF&G Pacholder Fund	Closed-end fund	35.77	20.00	19⅞	Alex. Brown

Initial public offerings sold at $1 or less not included. First aftermarket bid is approximate. [a] trading on NYSE. [b] trading on AMEX. [c] 600,000 shares offered overseas. [d] units of 2 common + 1 warrant. [e] 1.3 million shares offered via subscription offering. [f] units of 3 common + 3 warrants. [g] units of 1 common + 1 warrant. [h] 1,864,131 shares offered via subscription offering. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038.

Having made it into 1989 without financial catastrophe, it's tempting to believe that the Crash of '87 was a statistical anomoly, as if a bunch of traders coincidentally woke up on the wrong side of the bed on October 19 and decided to sell simply for cathartic effect. Because an economic downturn showed no signs of developing, recession-sensitive industries such as the technology sector, which passed a restive fall, rallied back to P/E respectability. Indeed, by January the market's sentiment had at last crept into postcrash positive ground.

"Sentiment" is a concept begat by contrarian analysts to describe the balance between bearish and bullish expectations, the idea being that the more they tilt to one side, the more the market is apt to go the other way. So far, the only element missing from a business-as-usual recovery from Meltdown Monday is that the public has yet to have its faith in equities restored. Well, you can smell it coming: just as sentiment reaches a bullish crescendo, that's probably when the public will finally join in unafraid.

Beware the Ides of March.

—Robert A. Mamis

CHARTS: IMAGEBUILDER DESIGN

COPYRIGHT © 1989 BY INC. PUBLISHING CORPORATION All rights reserved. Editorial and executive offices at 38 Commercial Wharf, Boston, MA 02110. INC. (ISSN 0162-8968) is published monthly by Inc. Publishing Corporation, 38 Commercial Wharf, Boston, MA 02110. Subscription rate for U.S. and Possessions, 12 issues $25. All subscription correspondence should be addressed to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Please allow at least six weeks for change of address. Include your old address as well as new, and enclose if possible an address label from a recent issue. Second class postage paid at Boston, MA, and additional mailing offices. Postage paid at Mississauga, Ontario. POSTMASTER: Send address changes to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Material in this publication must not be stored or reproduced in any form without permission. Requests for permission should be directed to Permissions Coordinator, INC., 38 Commercial Wharf, Boston, MA 02110. Inc. is a registered trademark of Inc. Publishing Corporation.